

Working Paper N° 33

“Private Pension Systems: Cross-Country Investment Performance”

Alberto R. Musalem and Ricardo Pasquini¹

Abstract

This paper provides evidence on the cross-country performance of private pensions systems, a topic which has not yet been appropriately covered by the literature. In particular, we examine the relationship between return and volatility measures of performance with the structure of the private pension industry and the design of pension plans. A panel database covering 27 countries for the period 1990-2007 was built up for this research. The study draws on the existing literature on privately managed pension funds and financial theory to establish and support a framework for the subsequent econometric work. We found that large size, occupational (instead of personal), closed (instead of open), and multi-funds (instead of a unique or single fund) systems display, on average, higher real returns. System age, voluntary (instead of mandatory), those with restrictive limits on foreign investments, and systems with minimum guarantees are found to be related, on average, with lower volatilities in their pension system returns.

Resumen

Este documento provee evidencia sobre el desempeño de los sistemas privados de pensión, en base a la comparación de los mismos entre 27 países. En particular, se examina si existe una relación entre dos medidas de desempeño (retorno y varianza), y las características de la estructura de la industria y del diseño de los planes de pensiones. Se utiliza una base de datos de panel, compilada para esta investigación, que cubre el período 1990-2007. El estudio usa como fundamentos la literatura existente sobre fondos de pensiones privados y la teoría de finanzas para establecer un marco metodológico para el subsiguiente trabajo econométrico. Encontramos que sistemas con mayor tamaño, ocupacionales (en oposición a los personales), cerrados (en oposición a los abiertos) y multi-fondos (en oposición a los de fondos únicos) muestran, en promedio, niveles superiores de retornos. Los sistemas con mayor edad, voluntarios (en oposición a los obligatorios), con límites a las inversiones en el exterior, y con garantías mínimas se encuentran, en promedio, relacionados con menor volatilidad en los retornos del sistema.

Key Words: Private Pension Funds, Investment Performance

¹ Musalem is Chief Economist and Pasquini is Economist at the Center for Financial Stability, Buenos Aires, Argentina. We thank Richard Hinz, Demian Panigo, Horacio Daniel Pozzo and participants at the Workshop in Mexico City in January 9, 2009 for helpful comments and suggestions. We would also like to thank Montserrat Pallares-Miralles and Martin Yanquilevich for their assistance on this research. We acknowledge financial support from the World Bank for this research.